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15
16 **UNITED STATES DISTRICT COURT**
NORTHERN DISTRICT OF CALIFORNIA
17 **(SAN JOSE DIVISION)**

18 GILEAD SCIENCES, INC.,

19 Plaintiff and Counterdefendant,

20 v.

21 MERCK & CO, INC. (Defendant only), MERCK
SHARP & DOHME CORP. and ISIS
22 PHARMACEUTICALS, INC.,

23 Defendants and Counterclaimants.
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25
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Case No. 5:13-cv-04057-BLF/PSG

**GILEAD'S BRIEF ON THE
AVAILABILITY OF A LUMP SUM
ROYALTY**

The Federal Circuit has expressly held that a jury is permitted to award, as damages, a lump-sum royalty compensating for both past and future infringement through the life of a patent. The Federal Circuit has similarly rejected the argument that a plaintiff necessarily has an equitable claim to separately recover for future infringement. This Court should, therefore, adopt the Northern California Model Patent Jury Instruction on reasonable royalty damages, which correctly instructs the jury that it may award a lump sum representing payment for a “license covering all sales of the licensed product both past and future.” This Court should, likewise, decline to include an additional instruction that the jury is only being asked to award damages through December 31, 2015.

I. BACKGROUND

During the March 4, 2015, jury instruction conference, Gilead asked this Court to adopt the Northern District of California Model Patent Jury Instruction B.5.7 for “Damages—Reasonable Royalty.”¹ Merck asked, instead, that the Court include a different instruction deviating significantly from the model.² After the Court indicated that it was inclined to substantially follow the model, Merck requested the addition to the model of an instruction that the jury is “only being asked to assess damages occurring up until December 31, 2015.” Gilead opposed the inclusion of that instruction because, under the law, a jury may award lump sum damages that would be compensation for a license covering the life of the patents. Gilead stated that it would agree to a jury instruction that any running royalty award would be only through December 31, 2015, but would not agree to an instruction that a lump sum award could only be for the period ending December 31, 2015. Gilead’s position was supported by the language of the Northern District of California Model Instruction, which states: “Another way to calculate a royalty is to determine a one-time lump sum payment that the infringer would

¹ The parties jointly agreed that the paragraph from the model instruction regarding a per-unit royalty could be deleted, as neither side believes that a per-unit royalty would be the appropriate form of damages.

² Compare ECF 245-1 at 79, with *id.* at 81.

1 have paid at the time of the hypothetical negotiation *for a license covering all sales of the*
 2 *licensed product both past and future.*³

3 In response, Merck argued that, under 35 U.S.C. § 284, the jury is only empowered to
 4 award damages for past infringement and, thus, cannot award a lump sum that covers any
 5 future period. Merck also argued that compensation for future infringement falls exclusively
 6 within the equitable power of the Court. Merck finally argued that a lump sum award covering
 7 the life of the patent can be awarded *only* if the patent-holder consented to it, which Merck
 8 does not. Merck did not cite any cases supporting its position or and suggesting that the
 9 Northern District of California Model instruction is not a correct statement of the law.

10 In response to the arguments presented by the parties, this Court asked for briefing on
 11 the question of whether the jury is empowered to award lump sum damages covering the life of
 12 a patent. As discussed below, the Federal Circuit has given a plain answer to this question,
 13 holding that a jury may award a lump sum covering both past and future infringement through
 14 the life of a patent and that a plaintiff is not guaranteed any equitable right to separate recovery
 15 for future infringement.

16 **II. ARGUMENT**

17 **A. Juries are empowered to award lump sum damages compensating for both** 18 **past and future infringement through the life of a patent**

19 In *Summit 6, LLC v. Samsung Electronics Co.*, 802 F.3d 1283 (Fed. Cir. 2015), the
 20 Federal Circuit rejected precisely the argument Merck made during the jury instruction
 21 conference and held that a jury is permitted to award a lump-sum royalty compensating “for
 22 both past and future infringement through the life of the patent.” *Id.* at 1301. In that case, after
 23 a finding of infringement, the jury awarded damages of \$15 million and “indicated on the
 24 verdict form that this was a lump sum award.” *Id.* at 1289. After trial, the district court
 25 “denied [plaintiff’s] request for an ongoing royalty” because the court determined “that the jury
 26 verdict represent[ed] an amount of a lump-sum license through the life of the patent and

27 ³ N.D. Cal. Model Patent Jury Instr. B.5.7 (emphasis added).
 28

1 compensate[d] [plaintiff] for both past and future infringement.” *Id.* at 1300-01. On appeal,
 2 the plaintiff challenged the district court’s denial of its request for an ongoing royalty
 3 arguing—as Merck does—that “its equitable claim for future damages is not an issue for the
 4 jury” and that “it is entitled to recover damages for future infringement.” *Id.* The Federal
 5 Circuit disagreed, explaining that although previous Federal Circuit decisions had not “directly
 6 addressed whether a jury can award lump-sum damages through the life of the patent,” those
 7 decisions “permitted such relief.”⁴ *Id.* The court then evaluated the trial evidence and the
 8 jury’s verdict and determined that “the jury award compensated [plaintiff] for both past and
 9 future infringement through the life of the patent.” *Id.* at 1300-01. As a result, the court held
 10 there was “no basis to disturb the district court’s determination.” *Id.* at 1301.

11 Similar decisions have been issued by district courts in this circuit and elsewhere. In
 12 *Fleming v. Escort, Inc.*, No. 12-CV-066-BLW, 2013 WL 3995259 (D. Ida. Aug. 5, 2013), a
 13 jury awarded lump sum damages of \$750,000. *Id.* at *2. Although the verdict form did not
 14 expressly state whether that lump sum award covered past and future use of the patented
 15 technology, the “lump sum” instruction given to the jury stated that the jury could award a
 16 “one-time lump sum payment that the infringer would have paid, and the patentee would have
 17 accepted, at the time of the hypothetical negotiation for a license **covering all sales of the**
 18 **licensed product both past and future.**” *Id.* at *2-3 (emphasis in original). Accordingly, the
 19 court held that “the jury’s verdict, when read together with the jury instructions, demonstrates
 20 that the jury’s verdict was intended to require [defendant] to pay \$750,000 for a paid-up license

21 ⁴ Specifically, the court considered the decision in *Telcordia Technologies, Inc. v. Cisco*
 22 *Systems, Inc.*, 612 F.3d 1365 (Fed. Cir. 2010), which considered whether the damages awarded
 23 in that case compensated for past infringement only or for past infringement and future
 24 infringement. *Id.* at 1378. Because the answer in that case was “unclear,” the court left the
 25 district court’s determination that the verdict covered only past infringement undisturbed,
 26 explaining that “[d]istrict courts have broad discretion to interpret an ambiguous verdict form”
 27 and “[t]he district court was in a position to assess whether the verdict figure represented past
 28 infringement as well as ongoing infringement.” *Id.*

The Court also cited the decision in *Whitserve, LLC v. Computer Packages, Inc.*, 694 F.3d
 10 (Fed. Cir. 2012), which held that a trial court has discretion as to whether to award any post-
 verdict relief for ongoing infringement and “can exercise its discretion to conclude that no
 forward-looking relief is appropriate in the circumstances.” *Id.* at 35.

1 covering all past and future use of the technology.” *Id.* at *4. The court, thus, held that the
 2 plaintiff was not entitled to receive any further damages. *Id.* Notably, the jury instruction
 3 given in *Fleming* was “from the Model Patent Jury Instructions (§5.7) for the Northern District
 4 of California,” and is the precise instruction that Gilead proposes be given here. *Id.* at *3.

5 The decision in *Personal Audio, LLC v. Apple Inc.*, No. 9:09CV111, 2011 WL 3269330
 6 (E.D. Tex. July 29, 2011), also confirms that a patent-holder need not consent in order for the
 7 jury to award lump sum damages covering the life of the patent.⁵ In that case, plaintiff sought
 8 “damages in the form of a per unit running royalty for both past and future infringing sales,”
 9 whereas the defendants advocated for damages “in the form of a lump sum.” *Id.* at *1. In
 10 response to those competing positions, the jury was provided with a verdict form that “allowed
 11 the jury to elect between a per unit running royalty and a lump sum royalty to cover ‘all past
 12 and future sales of [defendant’s] products.’” *Id.* at *4. After a verdict of infringement, the jury
 13 awarded lump sum damages of \$8 million. *Id.* The court held that “the jury’s selection of
 14 lump sum as the appropriate form of reasonable royalty clearly represents a damages award
 15 giving [defendant] a fully paid up license that covers all past and future use of the patented
 16 technology.” *Id.* at *5. Notably, because there were a very large number of accused products
 17 in the case, the court had elected to simplify the presentation of evidence by holding two trials,
 18 each addressing infringement by a subset of the accused products. *Id.* at *2. Following the
 19 jury’s damages award in the first trial, however, the court declined plaintiff’s request to
 20 schedule the previously planned-for second trial because the jury’s damages award constituted
 21 a “fully paid up license.”⁶ *Id.* at *5, 14.

22 ⁵ *Summit 6* similarly demonstrates that a patent-holder need not consent to a lump sum
 23 royalty. In *Summit 6*, although the plaintiff’s expert “admitted that a lump-sum award would
 24 compensate [plaintiff] through the life of the patent,” the plaintiff did not consent to such an
 25 award, advocating, instead, for a royalty of “\$0.28 per phone.” 802 F.3d 1289, 1301. It was
 26 defendants’ expert who opined that “no company would agree to pay a running royalty on a
 27 phone,” and that “a proper royalty would be \$1.5 million lump sum.” *Id.* at 1289. As
 28 discussed above, the jury awarded a lump sum, and the Federal Circuit affirmed the district
 court’s decision that the award “represent[ed] an amount of a lump-sum license through the life
 of the patent that compensates [plaintiff] for both past and future infringement.” *Id.* at 1300-01.

⁶ In each of the cases described herein, the jury’s verdict form included only a lump sum

B. The jury will be presented with evidence from which it could conclude that a lump sum award is appropriate

In this case, evidence will be presented that Merck performed its own calculations of the net present value of a license to Merck's patent for the entire life of the patent. For example, an internal Merck presentation discussing Merck's consideration of an acquisition of Pharmasset stated that, in the event that Merck did not purchase Pharmasset, the "value of potential 3% royalty for unblocking license is \$347 million."⁷ Merck's calculation of the lifetime-value of that license is evidence from which the jury could calculate "a one-time lump sum payment that the infringer would have paid at the time of the hypothetical negotiation for a license covering all sales of the licensed product both past and future."⁸ Gilead will present that evidence, as well as similar evidence demonstrating Merck's net present lifetime-valuation of the Merck-Roche license agreement relating to compound RG-7128, which is the principal piece of evidence relied upon by Merck to support its damages claim in this case. The jury will have ample evidence from which it could award a lump-sum royalty covering both past and future sales of the accused products.

III. CONCLUSION

For the foregoing reasons, Gilead respectfully requests that this Court adopt the Northern California Model Patent Jury Instruction on reasonable royalty damages, without the inclusion of an additional instruction that the jury is only being asked to award damages through December 31, 2015.

Dated: March 14, 2016

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amount—not a royalty rate—which refutes the argument made by Merck that the jury is required to identify a royalty rate on the verdict form.

⁷ EX-77 at 44.

⁸ N.D. Cal. Model Patent Jury Instr. B.5.7.